

ROUTING AND RECORD SHEET

SUBJECT: (Optional) News Release From Committee on Post Office and Civil Service U.S. House of Representatives, Representative Wm. D. Ford, Chairman

FROM:

DD/Pers/EBS

EXTENSION**NO.****DATE**

17 October 1985

TO: Officer designation, room number, and building**DATE****RECEIVED****FORWARDED****OFFICER'S INITIALS****COMMENTS** (Number each comment to show from whom to whom. Draw a line across column after each comment.)

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17 OCT 1985

NOTE TO: Director of Personnel

STAT FROM:
Deputy Director of Personnel for
Employee Benefits and Services

SUBJECT: News Release From Committee on Post Office
and Civil Service U.S. House of Representatives,
Representative William D. Ford, Chairman

Bob,

1. Attached is the News release regarding the supplemental retirement proposal prepared by Representative Ford's Committee. This proposal provides a much better retirement program than that proposed by the Senate and attempts to equate the new program with the existing Civil Service Retirement System (CSRS). The cost is 25.5% of payroll as compared with the revised Senate proposal of 21.9%. You will recall that our retirement proposal for Civil Service Retirees was 26.8% for pre-1984 employees and 27.3% for those hired on or after 1 January 1984. Our CIARDS figures were 49.4% for pre-1984 and 49.7% for those hired on or after 1 January 1984 as compared with the current CIARDS of 41%.

2. While the House proposal is not totally identical to our retirement proposal, it comes closer to ours, particularly in the special categories. We offer a better defined benefit than in the House version. We are preparing a revised summary sheet showing the Senate and House proposals as compared with the Agency's retirement proposal and will provide this information to you as soon as it is completed.

STAT

cc: DD/Pers
C/RD

17 OCT 1985

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FROM:

Deputy Director of Personnel for
Employee Benefits and Services

SUBJECT: News Release From Committee on Post Office
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Representative William D. Ford, Chairman

Barbara,

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cc: D/Pers
C/RD



news

15 OCT 1985

From

ADD/EBS

DD/EBS

RET File

COMMITTEE ON POST OFFICE
AND CIVIL SERVICE
U.S. HOUSE OF REPRESENTATIVES

Representative William D. Ford, *Chairman*

309 Cannon House Office Building
Washington, D.C. 20515

Telephone
(202) 225-4054

FOR IMMEDIATE RELEASE:
October 9, 1985

FOR MORE INFORMATION:
Contact Tom Joyce
(202) 225-4054

Details of a proposed supplemental retirement plan for Federal employees were unveiled today by Chairman William D. Ford of the House Post Office and Civil Service Committee and Congresswoman Mary Rose Oakar, Chair of the Subcommittee on Compensation and Employee Benefits.

Since 1984 new Federal employees have been covered by the Social Security System. The plan announced today is the result of three years of study and is carefully designed to provide equitable retirement benefits for those new employees.

When added to social security benefits, the proposed new plan would provide retirees, disabled employees and survivors with total benefits comparable to the existing Civil Service Retirement System, said Chairman Ford and Representative Oakar.

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The total employer cost of the plan, including social security, would be about 25.5 percent of salary, higher than in the average private sector plan.

"What must be kept in mind," said Ford and Oakar, "is that Federal employees, whose pay already has been frozen through 1986, will fall more than 16 percent behind workers in the private sector when total pay and benefits are compared. To reduce pension benefits for Federal workers would increase this unfair differential and make it even harder for the Federal government to compete with the private sector for the best and the brightest to design and operate space programs, fight disease and pestilence, guarantee the safety of our food and drugs, administer the law, and do all those other things so vital to our society."

When it was first proposed that new Federal employees be covered under social security Ford, along with House Speaker Thomas P. O'Neill and Ways and Means Committee Chairman Dan Rostenkowski, said in a letter to House members:

"We believe that new Federal employees who become covered under social security should be provided retirement benefits comparable to those under the Civil Service Retirement System."

Ford and Oakar said that the proposal presented today "keeps faith with that principle."

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At the beginning of extensive and searching hearings earlier this year, Ford said a supplemental plan "must be designed in a manner which will not threaten in any way the integrity of the existing Federal retirement system." He said benefits earned "must be protected and that a supplemental system must be compatible with the existing system to preclude the situation where employees working side by side would perceive themselves as being treated differently."

Today Ford said that he is "well satisfied" that those goals have been reached in this proposal.

Both Ford and Oakar praised the Congressional Research Service and Hay/Huggins Company, Inc., a prestigious consulting firm with extensive experience in the area of private retirement plans, for their research on retirement system design and cost. The Hay/Huggins assistance stretched over a three-year period.

Both Ford and Oakar stressed that the plan is a proposal being offered for full committee consideration.

The proposed plan is based on three principles:

- . The system should have benefits of the same value as the Civil Service Retirement System (CSRS).
- . The system should include the best design features of private sector plans and CSRS.
- . The total cost -- including social security -- should approximate the cost of CSRS.

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It includes these key provisions:

- . Full eligibility to retire at the current CSRS retirement ages of 55 with 30 years of service; 60 with 20 years of service; or 62 with 5 years of service.
- . Full protection against inflation after retirement or disability.
- . Continuation of mandatory employee contributions of 7% of pay to the total retirement system.
- . Continuation of the same levels of protection against disability.
- . A thrift plan with matching contributions from the Federal government.

Attached is a fact sheet and a copy of plan design specifications.

Attachments

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October 9, 1985

**FACT SHEET ON PROPOSED
CIVIL SERVICE SUPPLEMENTAL RETIREMENT SYSTEM (CSSRS)**

Retirement Benefits

The Civil Service Supplemental Retirement System (CSSRS) provides retirement benefits of 1% of high-three average salary for each year of service. The benefits are payable in full at age 55 with 30 years of service; age 60 with 20 years of service; or age 62 with 5 years of service.

To provide a steady level of retirement income for those eligible to retire before age 62, a supplement equal to the federally-earned social security benefit is paid up to that age.

For the average employee retiring after a full career with the government, the combined benefits provided by CSSRS and social security are similar to the benefits of the Civil Service Retirement System (CSRS). However, because of the distribution of social security benefits, lower-paid employees receive somewhat more and the higher-paid employees somewhat less than under CSRS.

CSRS has been carefully designed to provide for retirement of employees who face hazardous duty or strenuous conditions over their careers. It is in the best interest of the government to maintain a young, vigorous workforce in these categories. CSSRS continues this approach by providing for a consistent level of retirement income at earlier ages for Federal law enforcement personnel, firefighters, and air traffic controllers. The added cost of these benefits is paid by the employees and their agencies.

Disability Benefits

A disabled employee who is unable to perform the duties of his or her current position will be eligible for disability benefits. The benefit will be the accrued retirement benefit, but with a minimum based on service projected for 20 years, or to age 60 if earlier.

A disabled employee eligible for social security will typically receive replacement income of 50% of salary. This is somewhat higher than in CSRS, but lower than the typical private sector benefits of 60% to 75% of salary.

Disabled employees unable to perform the duties of their current or similar positions, but not qualifying under the stricter social security definition, will receive a supplement to make up for the lack of a social security benefit.

Survivors

As in private sector plans and CSRS, the spouse of a deceased employee will be eligible to receive 50% of the employee's pension earned at death. The employee can continue this survivor protection after retirement by accepting approximately a 10% reduction in the basic retirement annuity.

Social security pays surviving spouse benefits averaging 20% to 25% of salary. However, there is a "blackout period" between when the spouse's youngest child turns age 16 and the spouse reaches age 60. CSSRS provides a constant level of income throughout this blackout period. It ensures a minimum guarantee equal to the regular CSSRS benefit (up to 22% of high-three salary) plus the social security benefit that would be paid to the widow at age 60.

The new system also recognizes that while adequate benefits are paid to eligible children under social security, these are discontinued at age 18, or age 19 if the child is in school. CSRS benefits are continued until age 22 if the child is in school. CSSRS fills in this gap by providing benefits as in CSRS from age 19 to age 22 if the child is in school.

Capital Accumulation Plan

The new retirement system combines a traditional defined-benefit retirement plan with a Capital Accumulation Plan (CAP) to encourage employee participation in building retirement income. The CAP has the same design as the most common system provided by private sector employers. Employees can voluntarily contribute up to 10% of salary to the CAP with the government matching half of the first 6% of salary.

The employee contribution will be allocated, at the discretion of the employee, among investment funds maintained by an independent Civil Service Investment Board. The options will include funds that specialize in a particular type of investment such as Federal securities or equities. Matching government contributions will be invested in a Treasury bond fund for the first five years, and thereafter at the discretion of the employee.

Employee Contributions

Employees will be required to make contributions to the retirement fund equal to 7% of salary, less the contributions to OASDI (currently 5.7%).

Employees will be fully vested in their contributions and entitled to withdraw the contributions, plus interest, at the time of leaving Federal service. After five years of service, employees will be vested in a deferred benefit, payable at age 62, reduced by the value of any withdrawn contributions.

Cost-of-Living Protection

All benefits under CSSRS are fully protected against inflation by annual adjustments equal to the increase in the Consumer Price Index. The formula for the timing and amount of the increase is the same as under CSRS.

Government Cost

The total employer cost of the retirement system, including social security, will be about 25.5% of salary. Details of the cost are in the attached table. The additional .5% of salary over the CSRS cost of 25% of salary is needed to compensate for the redistribution of benefits under the social security system. At its slightly higher cost, CSSRS provides benefits that are worth, in total, the same as the CSRS benefits.

The decision to provide a new system with the same value as CSRS was based on a detailed study of total compensation, including retirement, performed in 1984 by Hay/Huggins. While retirement benefits provided by CSRS are worth 6.4% more than those of average private sector plans, the total Federal compensation package falls more than 16% behind that of the average private sector employer. Since 1984, Federal employees have received one 3.5% pay increase and there is no increase scheduled through the end of 1986. It is expected that private sector pay will have increased 12.5% in 1985 and 1986.

Chairman Ford and Chair Oakar believe that it is important to preserve the value of the only major part of the compensation package that is more valuable than in the private sector. A strong retirement system will help to attract and retain employees who would otherwise look for other jobs with higher salaries and superior fringe benefits.

**PLAN DESIGN SPECIFICATIONS
FOR THE
CIVIL SERVICE SUPPLEMENTAL RETIREMENT SYSTEM**

I. DEFINED BENEFIT RETIREMENT

A. BASIC PLAN DESIGN	Defined benefit, not explicitly integrated with social security (add-on plan).
B. REQUIRED EMPLOYEE CONTRIBUTION	7% of salary less OASDI contribution.
C. VESTING	5 years.
D. SALARY BASE	Average High-3 salary.
E. RETIREMENT BENEFIT FORMULA	1.0% x years of service.
F. UNREDUCED RETIREMENT BENEFITS	Age 55 with 30 years of service; Age 60 with 20 years of service; Age 62 with 5 years of service. Supplement paid prior to age 62 equal to social security benefit.
G. INVOLUNTARY EARLY RETIREMENT BENEFITS	Age 50 with 20 years of service. Any age with 25 years of service.
H. DEFERRED RETIREMENT	Full accrued benefit payable at age 62 with at least 5 years of service.

I. REFUNDS

Employees may withdraw contributions plus interest. Any withdrawn contributions will be deducted from the vested benefit value.

**J. COST-OF-LIVING
ADJUSTMENT**

Annual adjustment equal to the increase in the Consumer Price Index.

K. DISABILITY BENEFITS

For employees eligible for social security benefits no less than the lesser of:

- (a) 20% of high-three salary, or
- (b) the retirement benefit projected to age 60

Employees not eligible for social security benefits receive the above formula plus a supplemental benefit until old-age social security benefits become payable at age 62.

L. HAZARDOUS DUTY EMPLOYEES

Federal Law Enforcement officers may retire after age 50 with 20 years of service.

Firefighters may retire after age 50 with 20 years of service.

Air Traffic Controllers may retire after 25 years of service or after age 50 with 20 years of service.

The annual retirement credit is 1.7% times years of service up to 20 years plus 1.5% for years in excess of 20 years.

**HAZARDOUS DUTY EMPLOYEES
(contd)**

Supplement payable from
retirement to age 62.

Employee pays an additional .5%
of pay for benefit.

**M. POST-RETIREMENT SPOUSE
SURVIVOR BENEFITS**

Automatic unless jointly waived.

Those electing option have
annuity reduced by 10%.

Payment to surviving spouse is
half of the unreduced annuity.

**N. PRE-RETIREMENT SPOUSE
SURVIVOR BENEFITS**

Any age with 18 months of
service.

The same benefit that would be
payable to a surviving spouse of
a retired employee.

The minimum surviving spouse's
benefit is no less than the
lesser of:

- (a) 22% of high-three salary, or
- (b) the projected combined
retirement system and
social security benefit at
the widow(er)'s age 60.

less
social security

O. CHILDREN

Annual benefit of \$2,800
increased by future CPI growth,
and fully offset for the
children's portion of any social
security benefit. Benefits paid
until age 18 for a child not in
school and until age 22 for a
child in school. Benefits are
continued after age 22 for a
disabled child.

**II. VOLUNTARY CAPITAL
ACCUMULATION PLAN**

**A. ALLOWABLE EMPLOYEE
CONTRIBUTIONS**

Up to 10% of pay to thrift plan.

**B. GOVERNMENT MATCHING
CONTRIBUTIONS**

For each \$1 contributed by
employee up to 6% of pay,
Government contributes \$0.50.

C. VESTING

Employee contributions
immediately vested. Government
matching contributions vested
20% after 1 year, 40% after 2
years, 60% after 3 years, 80%
after 4 years, and fully vested
after 5 years.

D. INVESTMENT OPTIONS

Employees may choose to invest
their contributions in any of
the investment vehicles provided
in the Capital Accumulation
Plan.

Government contributions are
invested in Treasury securities
for the first five years of the
Capital Accumulation Plan.
After this period, Government
contributions may be invested in
any of the investment vehicles
as elected by the employee.

E. CURRENT EMPLOYEES

Current employees may not elect
into CSSRS. They may
participate in the Capital
Accumulation Plan, but do not
receive Government matching
contributions.

III. SOCIAL SECURITY

**A. OLD AGE, SURVIVORS, AND
DISABILITY INSURANCE**

All affected employees covered.

B. EMPLOYEE CONTRIBUTION

**Employee contribution of 5.7% of
pay (6.06% in 1988; 6.2% in
1990) for OASDI coverage, up to
maximum taxable wage base
(\$39,600 in 1985.)**

Cost Table

Civil Service Supplemental Retirement System

<u>PROGRAM COMPONENT</u>	<u>ESTIMATED NORMAL COST</u> (percentage of payroll)
TOTAL DEFINED BENEFITS	19.3%
CAPITAL ACCUMULATION PLAN	4.3%
SOCIAL SECURITY	11.8%
TOTAL BENEFITS	35.4%
EMPLOYEE CONTRIBUTIONS	
Defined Benefit	-1.1%
Capital Accumulation Plan	-2.9%
Social Security	-5.9%
Subtotal	-9.9%
TOTAL EMPLOYER COST	25.5%**

** Total cost to replicate current benefit levels is slightly higher than the current system costs.